

MCCLAIN COUNTY RURAL WATER DISTRICT #8

WAYNE, OKLAHOMA

FINANCIAL STATEMENTS AND

AUDITOR'S REPORT THEREON

FOR THE YEAR ENDING JUNE 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
McClain County Rural Water District #8
Wayne, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of McClain County RWD#8, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the McClain County RWD#8, as of June 30, 2020 and 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McClain County RWD#8's basic financial statements. The supporting schedules on pages 9 and 10 are presented for purposes of additional analysis and are not a required part of the financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2021, on our consideration of the McClain County RWD#8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering McClain County RWD#8's internal control over financial reporting and compliance.

Russell + William CPA's P.C.

Oklahoma City, Oklahoma
January 11, 2021

McClain County Rural Water District #8**Statement of Net Position****June 30, 2020 and 2019**

| | 2020 | 2019 |
|---|-------------------------------|-------------------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents - Unrestricted | 332,962.70 | 916,298.90 |
| Cash and cash equivalents - Restricted | 181,064.09 | 178,515.91 |
| Net Receivables | 80,544.19 | 57,693.22 |
| Prepaid Insurance | 14,122.45 | 15,460.42 |
| Materials and Supplies | 12,935.21 | 12,935.21 |
| Total Current Assets | 621,628.64 | 1,180,903.66 |
| NONCURRENT ASSETS: | | |
| Net Capital Assets | 1,801,110.82 | 1,374,998.10 |
| Total Noncurrent Assets | | |
| TOTAL ASSETS | <u>\$ 2,422,739.46</u> | <u>\$ 2,555,901.76</u> |
| CURRENT LIABILITIES: | | |
| Accounts Payable | 11,999.22 | 14,213.91 |
| Accrued Expenses | 5,778.02 | 5,943.74 |
| Current Portion of Long Term Debt | 101,249.00 | 60,000.00 |
| Total Current Liabilities | 119,026.24 | 80,157.65 |
| NONCURRENT LIABILITIES: | | |
| Notes Payable | 1,634,610.12 | 1,772,010.76 |
| Total Noncurrent Liabilities | | |
| TOTAL LIABILITIES | <u>1,753,636.36</u> | <u>1,852,168.41</u> |
| NET POSITION | | |
| Invested in Capital Assets, Net of Related Debt | 92,301.98 | 123,992.35 |
| Unrestricted | 576,801.12 | 579,741.00 |
| Total Net Position | <u>669,103.10</u> | <u>703,733.35</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 2,422,739.46</u> | <u>\$ 2,555,901.76</u> |

McClain County Rural Water District #8
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2020 and 2019

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Revenues | | |
| Water Sales | \$ 613,664.18 | \$ 551,277.01 |
| Miscellaneous | 20,400.00 | 21,000.00 |
| Total Revenues | <u>634,064.18</u> | <u>572,277.01</u> |
| Expenses | | |
| Operating Expenses | 218,201.18 | 207,110.68 |
| Wages and Salaries | 182,215.07 | 164,235.38 |
| General and Administrative | 86,998.18 | 105,063.52 |
| Interest | 80,148.45 | 55,758.78 |
| Depreciation | 128,327.57 | 126,057.57 |
| Total Expenses | <u>695,890.45</u> | <u>658,225.93</u> |
| Excess Revenue Over Expenses Before Non-Operating Items | (61,826.27) | (85,948.92) |
| Interest Income | <u>4,696.02</u> | <u>4,399.28</u> |
| Excess Revenue Over Expenses After Non-Operating Items | <u>(57,130.25)</u> | <u>(81,549.64)</u> |
| Beginning Net Position | 703,733.35 | 765,572.99 |
| Contributed Capital | 22,500.00 | 19,710.00 |
| Ending Net Position | <u>\$ 669,103.10</u> | <u>\$ 703,733.35</u> |

The accompanying notes are an integral part of these financial statements

McClain County Rural Water District #8
Statement of Cash Flows
For the Years Ending June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-------------------------------|
| Cash flows from operating activities | | |
| Cash Received from customers | \$ 590,813.21 | \$ 564,116.08 |
| Cash Received from other sources | 25,096.02 | 25,399.28 |
| Payments to suppliers | (386,224.53) | (365,590.53) |
| Payments to employees | <u>(182,380.79)</u> | <u>(168,321.69)</u> |
| Net cash provided by operating activities | 47,303.91 | 55,603.14 |
| Cash flows from capital and related financing activities | | |
| Common Units Sold | 22,500.00 | 19,710.00 |
| Purchase of Capital Assets | (554,440.29) | (6,400.23) |
| Principal paid on long term debt | <u>(96,151.64)</u> | <u>508,782.56</u> |
| Net cash flows from capital and related financing activities | (628,091.93) | 522,092.33 |
| Net increase (decrease) in cash | (580,788.02) | 577,695.47 |
| Cash, Beginning of the Year | <u>1,094,814.81</u> | <u>517,119.34</u> |
| Cash, End of the Year | <u><u>\$ 514,026.79</u></u> | <u><u>\$1,094,814.81</u></u> |
| <i>Reconciliation of Operating Income (Loss) to Net Cash</i> | | |
| <i>Provided (Used) by Operating Activities:</i> | | |
| Excess Revenue over Expenses Before Non-Operating Items | (57,130.25) | (81,549.64) |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided (Used) by Operating Activities: | | |
| Depreciation | 128,327.57 | 126,057.57 |
| (Increase) Decrease in Accounts Receivable | (22,850.97) | 12,839.07 |
| (Increase) Decrease in Materials & Supplies | - | (4,911.75) |
| (Increase) Decrease in Prepaid Expenses | 1,337.97 | (220.17) |
| Increase (Decrease) in Accounts Payable | (2,214.69) | 2,562.62 |
| Increase (Decrease) in Accrued Expenses | <u>(165.72)</u> | <u>825.44</u> |
| Net cash provided by operating activities | <u><u>\$ 47,303.91</u></u> | <u><u>\$ 55,603.14</u></u> |
| Cash and cash equivalents - Unrestricted | 332,962.70 | 916,298.90 |
| Cash and cash equivalents - Restricted | <u>181,064.09</u> | <u>178,515.91</u> |
| Total Cash | <u><u>\$ 514,026.79</u></u> | <u><u>\$ 1,094,814.81</u></u> |

The accompanying notes are an integral part of these financial statements

MCCLAIN COUNTY RURAL WATER DISTRICT #8
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The McClain County Rural Water District #8, Oklahoma (the "District") was created on October 5, 1973, pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of McClain County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short-term investments. Restricted cash is cash reserves required by debt covenants.

Depreciation – Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – No provision is made for income taxes. The District is a public trust and therefore not subject to income taxes under the Internal Revenue Code.

Contributed Capital – The District has received grants from governmental agencies for the construction of the District's water system. These amounts have been recorded as Contributed Capital to reflect amounts received as equity from events not involving operations of the fund. No amounts were contributed during 2020 and 2019.

Revenue and Expense Recognition – Revenue is recognized when it is earned, which is the point of consumption by the customer and expenses are recognized at the point of sale to the District.

Risk Management - The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance from commercial insurance companies.

GASB 34 - The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

NOTE 2 – COMMON UNITS

The District sells common units to new members. The accumulation of the sale of common units is reflected as part of the equity of the District. During the year ending June 30, 2020, the District sold \$22,500 worth of common units.

NOTE 3 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC. As of June 30, 2020, the District had \$500,000 secured as category 1 and \$82,963 secured as category 2. For the year end the District had an overall under pledged collateral amount of \$-0-.

NOTE 4 – LONG TERM DEBT

During the year ending June 30, 2014, the District refinanced their existing Rural Development loans through the Oklahoma Water Resource Board. This loan is being administered by BancFirst. The excess loan proceeds were used for capital improvements. This loan calls for semi-annual payments and matures in September 2033. This loan carries a variable interest rate ranging from 2.1% to 2.4%. Principal and interest paid during the year ending June 30, 2020 was \$60,000 and \$53,719, respectively. Principal and interest required to amortize this note till maturity is as follows:

| | Principal | Interest | | |
|-----------|---------------------|-------------------|-------------------------------|---------------------|
| 2020/2021 | 65,000 | 51,269 | Balance Beginning of Year | \$ 1,230,000 |
| 2021/2022 | 65,000 | 48,409 | Principal Paid During of Year | 60,000 |
| 2022/2023 | 70,000 | 45,439 | Balance End of Year | <u>\$ 1,170,000</u> |
| 2023/2024 | 70,000 | 42,359 | | |
| 2024/2025 | 75,000 | 39,356 | | |
| 2025/2030 | 415,000 | 146,455 | | |
| 2030/2033 | 410,000 | 40,349 | | |
| | <u>\$ 1,170,000</u> | <u>\$ 413,635</u> | | |

Collateral for these obligations is the water system and revenues generated by the system. The District also had restricted cash of \$181,064 as of June 30, 2020 for debt service and remaining loan proceeds.

During the year ending June 30, 2019 the District purchased an excavator thru John Deere Credit. This loan carries a 0% interest rate and requires monthly payments of \$1,018.12. The balance of this note as of June 30 was \$8,794. Principal and interest required to amortize this note till maturity is as follows:

| | Principal | Interest | | |
|-----------|-----------------|-------------|-------------------------------|-----------------|
| 2020/2021 | 8,794 | - | Balance Beginning of Year | \$ 21,011 |
| | <u>\$ 8,794</u> | <u>\$ -</u> | Principal Paid During of Year | <u>12,217</u> |
| | | | Balance End of Year | <u>\$ 8,794</u> |

During the year ending June 30, 2019, the District took out a loan with the Oklahoma Rural Development Finance Corporation for \$581,000. Proceeds from this loan were used to rehab the water plant. This loan carries a 5.25% interest rate and requires monthly payments of \$4,670.53. The balance of this note as of June 30 was \$557,066. Principal and interest required to amortize this note till maturity is as follows:

| | Principal | Interest | | |
|-----------|-------------------|-------------------|-------------------------------|-------------------|
| 2020/2021 | 27,455 | 28,592 | Balance Beginning of Year | \$ 581,000 |
| 2021/2022 | 28,931 | 27,115 | Principal Paid During of Year | <u>23,934</u> |
| 2022/2023 | 30,487 | 25,559 | Balance End of Year | <u>\$ 557,066</u> |
| 2023/2024 | 32,127 | 23,919 | | |
| 2024/2025 | 33,855 | 22,192 | | |
| 2025/2030 | 404,211 | 70,644 | | |
| | <u>\$ 557,066</u> | <u>\$ 198,021</u> | | |

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--------------------------|----------------------|-----------|-----------|---------------------|
| Water Lines and Plant | 3,180,204 | 554,440 | - | 3,734,644 |
| Equipment and Fixtures | 484,702 | - | - | 484,702 |
| Total | 3,664,906 | | | 4,219,346 |
| Accumulated Depreciation | (2,289,909) | (128,328) | | (2,418,237) |
| Net Capital Assets | <u>\$1,374,997</u> | | | <u>\$ 1,801,110</u> |

Management decides which purchases are capitalized on a case by case basis.

NOTE 6 – INSURANCE COVERAGE

The District maintains insurance coverage through the Oklahoma Rural Water Association Assurance Group (ORWA). The policy coverage period is 6/01/2020 to 6/01/2021. The policy agreement number is 10298. The policy provides the following coverage:

Property and General Liability

| | | | |
|-----------|--|-------------|--------------------------|
| \$25,000 | Each Property Damage Loss per Occurrence | \$1,000,000 | Aggregate Per Occurrence |
| \$125,000 | Each Other Loss per Occurrence | \$1,000,000 | Annual Aggregate |

Worker's Compensation and Employment Related Practices Liability

| | | | |
|-----------|--|-------------|------------------|
| \$500,000 | Per Occurrence Including Attorney Fees | \$1,000,000 | Annual Aggregate |
|-----------|--|-------------|------------------|

Position Fidelity Bond

| | |
|----------|---------------------------|
| \$10,000 | Blanket Coverage |
| \$71,000 | Per Position on the Board |
| \$10,000 | Money Securities |

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 11, 2021 which is the date the financial statements were made available.

McClain County Rural Water District #8
Supporting Schedule of Operating Expenses
For the Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|--------------------------|----------------------|----------------------|
| Chemicals | 2,952.65 | 2,820.00 |
| Expense on System | 71,298.12 | 69,463.94 |
| Uniforms | 3,000.00 | 4,252.56 |
| System Repairs | 65,693.13 | 70,408.29 |
| Electricity | 39,036.57 | 33,434.00 |
| Workmen's Comp Insurance | 12,604.50 | 8,293.31 |
| Automobile Expense | 23,616.21 | 18,438.58 |
| Total Operating Expenses | <u>\$ 218,201.18</u> | <u>\$ 207,110.68</u> |

McClain County Rural Water District #8
Supporting Schedule of General and Administrative Expenses
For the Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|----------------------|
| Accounting and Legal | 16,005.00 | 28,725.00 |
| Insurance and Bonding | 36,494.45 | 24,152.37 |
| Miscellaneous | 3,570.30 | - |
| Office Supplies | 15,442.85 | 35,888.88 |
| Postage | 3,526.40 | 4,779.07 |
| Telephone | 9,182.87 | 8,405.36 |
| Natural Gas | 1,251.26 | 1,688.34 |
| Water | 1,525.05 | 1,424.50 |
| Total General & Administrative Expenses | <u>\$ 86,998.18</u> | <u>\$ 105,063.52</u> |

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
McClain County RWD #8

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of McClain County RWD #8, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise McClain County RWD #8's basic financial statements and have issued our report thereon dated January 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McClain County RWD #8's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McClain County RWD #8's internal control. Accordingly, we do not express an opinion on the effectiveness of McClain County RWD #8's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2020-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

McClain County RWD #8's Response to Findings

McClain County RWD #8's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. McClain County RWD #8's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Russell + William CPAs, P.C.

Oklahoma City, Oklahoma
January 11, 2021

Schedule of Current Findings and Responses

2020-1 Lack of Segregation of Duties (Repeat Finding)

CONDITION: During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks require two signatures whether there are two signature lines or not. Board has approval of all expenditures. In many cases due to our limited resources, controls will be limited.